



## Has Air Canada (TSX:AC) Stock Finally Bottomed?

### Description

**Air Canada** ([TSX:AC](#)) looks to have formed a technical bottom in the mid-teens, but with such a profound disruption to its operating cash flows, things could get worse for the airlines before they get any better, as their business models are looking quite uneconomical amid this [horrific pandemic](#).

While the broader markets have (mostly) recovered from the coronavirus crash, a bear-case scenario, which may entail a brutal second wave of COVID-19 infections, could easily send airline stocks falling below its support levels, even with the unprecedented backing by central banks around the world.

Sure, most stocks have likely already put the [bottom](#) in thanks to the “Fed put,” but the airlines are an entirely different beast. They’re sitting at ground zero of this crisis, and one must realize that there’s a realistic chance some of them may not survive if worse comes to worst and government-mandated shutdowns drive revenues to zero, as liquidity reserves dry up.

Warren Buffett wants nothing to do with U.S. airline stocks amid the pandemic for a reason. They face a potentially dire fate if an effective COVID-19 vaccine doesn’t land as quickly as most expect. Just because Buffett has lost confidence doesn’t mean you should, especially if you’re a young investor who can stomach the turbulence.

### Is the bottom in with Air Canada stock?

Some of the more optimistic pundits see a vaccine being approved at year-end. Others don’t forecast the advent of a vaccine until the middle of 2021. Given the unpredictable nature of biology, there’s also a chance that a vaccine may not be available for broader distribution until late 2021 or even 2022.

If that’s the case, even Air Canada, which has a stellar liquidity position (and less leverage than its U.S. peers), could stand to fall into single-digit territory.

Of course, promising news on vaccine developments could be a needle mover for airline stocks. But one must not discount the unfathomable amount of stress that the airlines will suffer for the duration of this pandemic. **Boeing** CEO Dave Calhoun isn't ruling out a major airline bankruptcy by year-end.

And although I don't think Air Canada is at risk of bankruptcy given its superior balance sheet relative to most other airlines, the entire basket of airline stocks will likely go down together if it turns out we're farther away from a vaccine than most pundits believe.

While promising news on a potential vaccine could keep Air Canada above its support level in the mid-teens, the fundamentals will continue decaying until there's a vaccine, as it's unlikely business or international travel will recover until it's safe to hit the skies again without running the risk of contracting the deadly COVID-19.

Also, a pipeline of meagre quarterly results are likely to prevent any sustained rally higher for the industry, so investors rewarded with quick gains for no apparent reason would be wise to trim profits on sharp bounces as they come.

## Foolish takeaway

Although some, including analysts at **Goldman Sachs**, see a vaccine being approved in late 2020, I'd be more conservative and lean toward a mid-2021 approval.

Fortunately, even the latter scenario would allow for huge gains in a stock like Air Canada, which could prove to be severely undervalued here.

If you're keen on betting on the airlines, Air Canada is the way to do it because of its modest cash burn rate and its applaud-worthy balance sheet, both of which buy the company time for a vaccine to land.

Don't bet the farm on the bottom being in, though, as Air Canada is likely to continue facing elevated turbulence well into year-end.

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